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BUILDING MINORITY BUSINESS ENTERPRISE



U. S. Department
of Commerce
Office of Minority
Business Enterprise



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FOREWORD

Corporate and Industrial participation in the development of "Minority Business Enterprise" makes good business sense. Through the application of appropriate management, technical and financial support and assistance, minority-owned businesses can become self-sustaining and profitable; they can help build the nation's economy and contribute to the national, state, and local tax bases; they can provide new sources of employment, and reduce poverty rolls; they can provide new sources of supply; and they can provide access to the multi-billion dollar minority markets.

Entirely aside from the question of corporate "social responsibility", it is in the best business self-interest of majority corporations to join hands with government in minority business development.

Outlined herein are fourteen ways in which each major corporation, acting either individually or through business organizations and associations, can help. Each of the ideas presented is tested and proven, and more specific details on each is available to YOU, the necessary catalyst in our nationwide effort for mutual economic expansion and development.

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1. Minority Enterprise Small Business Investment Companies

MESBICs provide an opportunity for participation and investment in minority businesses. Privately capitalized by one or a group of individuals, corporations or organized groups, a MESBIC is a for-profit venture capital corporation chartered by the state and licensed by the Small Business Administration (SBA). Minimum unencumbered capital is \$150,000, though most MESBICs are chartered for \$500,000 or more.

MESBICs provide venture and equity capital and long-term debt financing to newly-acquired or expanding businesses owned at least 50% by disadvantaged individuals. In addition to special tax considerations, the MESBIC provides for extensive leveraging of the initial capital investment. First, there may be a three-for-one matching, low-interest, long-term loan from the SBA which, as an example, increases the initial \$500,000 capital to \$2,000,000. Then, through loan participations, this four-fold capital base can be multiplied as much as five more times, permitting the MESBIC to generate as much as twenty times its own initial capital investment in profit-oriented minority business assistance.

MESBICs are of particular interest to venture capitalists, to franchisors and to firms interested in broadening their distribution or supplier systems. They pro-

vide a vehicle for the financing of new business opportunities; the development of more sophisticated management techniques; and a broader socio-economic recognition, and the opportunity to directly and materially assist in the strengthening of the local economy.

2. Guarantee Pools

Guarantee pools are normally established by providing funds, assets or capital notes to lending institutions as an incentive to the banks to make more minority business loans and as a guarantee of repayment on loans requiring additional security. The basic idea is to remove a portion of the risk a bank lending officer foresees, and the guarantor may co-sign, endorse or guarantee all or a portion of the loan . . . often in conjunction with or as an adjunct to an SBA-guaranteed loan.

In addition, guarantee pools may provide for trade credit guarantees, contract completion guarantees, quality guarantees, construction bonds, etc. Since the single "pool" can guarantee many credits, a certain amount of leverage is also provided, multiplying the benefits to all parties concerned.

3. Direct Investments

To help minorities overcome the problems stemming from their limited capital availability and to speed their entry into the

economic mainstream, some funding sources are investing directly in minority-owned businesses or are guaranteeing loans made by others to minority businesses.

Negotiated privately, a direct investment may provide an equity position, short or long term collateral loans, fixed or variable interest rates or a simple loan guarantee, depending on the needs and capability of the new or expanding minority business. Provisions may also be made to furnish management or technical assistance. The variations are up to the parties concerned.

4. Bank Deposits

Fewer than 60 of the 14,000 banks in the United States are minority-owned. Their capacity to finance minority business needs is limited and the strong support of the entire business community is needed.

One means by which corporations can directly affect bank loan availability to minority enterprise is by placing deposits in minority-owned banks. These banks, normally situated in the inner-city, actively service their own marketing area and a deposit does double duty: it strengthens the bank itself, and allows the bank to place more funds at work in the minority community.

Corporate officers, too, can encourage their suppliers, churches, colleges, governmental agencies, foundations and others to open minority bank accounts or deposit their withholding taxes in these banks.

5. Bank Leverage

Depositors can encourage their banks to expand their minority loan programs. A growing number of larger banks have already responded aggressively and innovatively either on their own, through local community groups, or by utilizing the various loan guarantee programs of the Small Business Administration.

Other banks can be influenced favorably if depositors—particularly larger depositors—encourage their bank's participation in the minority enterprise effort.

Trust funds have been placed with the understanding that earnings will be used in minority lending, or corporations have insisted that their time deposits be reflected in minority loans; or deposits have been left at a lower rate of interest and the differential set aside for technical and managerial assistance to minority businessmen. There are many other ways in which banks and their large and small depositors can cooperate—the only limitation is YOU.

6. Purchasing from Minority Owned Businesses

The number of minority manufacturing, processing, packaging, and service businesses is rapidly increasing and many have fully competitive capabilities for local and national markets. However, even

though prices, quality and service are competitive, you may not be utilizing these businesses simply because they often have difficulty in meeting with, or getting to see your purchasing agents.

That's where YOU come in! A minority purchasing program does not call for a commitment of capital funds. It does require a strong, visible commitment by top management and it may require some early extra effort by purchasing agents in locating and working with these new suppliers. However, listings of minority businesses are available and you can start today.

This is a relatively simple, demonstrable, inexpensive and direct means of supporting the minority enterprise effort while helping yourself.

7. Joint Ventures

Minority businessmen often have unique skills and knowledge gained from their experience in operating highly specialized small businesses. Frequently there is a direct advantage to formation of a joint venture—whereby a majority firm and a minority business can expand sales, develop properties and enter or service a specialized market. For the majority firm there is the opportunity to enhance its chances for success. For the minority partner there is the direct advantage of proximity to corporate skills and resources so necessary to capitalize on a true opportunity within the national marketplace.

8. Turnkey Spinoffs

The corporate “spinoff” has been used for many purposes: To capitalize a growing product line, to separate specific business functions or as a means of orderly withdrawal from operations too small or too specialized for the parent firm to handle efficiently.

Spinoffs can also fill an important role in the transfer of all or part of a business unit to minority ownership. Inner city firms can be set up for a special market; production can, in effect, be “farmed-out” to reduce management responsibilities; complete product lines can be sold; or customized operations “spun-off.” Profitable functions can be made more profitable by localized management—all with the goodwill and partnership for profit of the majority firm and the minority businessmen.

9. Franchises and Dealerships

Good franchises and dealerships come with many of the built-in ingredients that minority businessmen need to succeed—adequate capital, a realistic business opportunity, and continuing managerial and technical assistance. They have proven successful for a great number of small businessmen, offering both the independence and self-reliance of individual business ownership and the assistance and name of an established corporation.

In recent years major franchisors have sought to place a much greater proportion of their outlets in the hands of qualified minority owners. In many instances corporations provide training and supervision. Franchisors can create a special purpose MESBIC to finance minority businessmen who are short of venture capital. Today, the minority businessman can participate in your franchise program if YOU supply the opportunity.

10. Volunteer Counseling

All of the day-to-day problems of a given small business cannot be covered adequately with formal training in the classroom. Although formal training provides a very necessary foundation of know-how, the availability of a volunteer counselor on a regular basis is often the most productive and efficient way to bring about a transfer of skills to the minority businessman.

Realizing the potential of voluntary manpower, many companies and organizations are assisting minority entrepreneurial development through application of the "buddy system" to the field of business management. Such projects match majority and minority businessmen in continuing relationships . . . with substantial success. While some programs have developed spontaneously, others require the catalyst of a more formal organization established on a community level. Though government and private organizations are working in this field more volunteer help is needed.

11. Management Training

A lack of management expertise is a frequent shortcoming of all small businesses. In the case of minority business, the problem is often compounded because minority entrepreneurs do not know where to turn for help. Majority businessmen, operating individually or through organized action, can do much to transplant their expertise by teaching formal courses in management techniques to potential minority entrepreneurs.

Courses are usually offered at night for the convenience of both teacher and students, all of whom are busy during the day with the management of their own businesses. Space and facilities are usually provided by the local schools, community organizations, corporations, or the local Chamber of Commerce.

Experience indicates that all participants benefit. At first, the minority businessman may be resentful of the majority businessman's "teacher" role, because of previous situations that have been distasteful. Similarly, the teachers may require time to become sensitized to the unique problems faced by the minority businessman. However, as the personal interest of the majority businessman becomes apparent, and as the differences in business approach are honestly debated, the relationship becomes normal and friendly. The minority businessman learns and tests the ideas, principles and experiences of the majority businessman and then relates these to his own circumstances.

The results are often surprising: a new customer for the minority businessman, a source of supply for the majority businessman, a joint effort on a particular opportunity—or just a special, personal relationship with long-term benefits.

12. Minority Trade Associations

Another way to broaden the management and technical capacity of minority businesses is by assisting minority trade associations.

Mainstream businesses and associations can provide valuable assistance to minority-based trade associations by sharing operational know-how, assisting with marketing advice, and providing information about sources of supply, standardized profit and loss criteria, quality control data, and production management techniques.

13. Local Development Companies (LDCs)

Local Development Companies are chartered to assist in the economic growth of a community. They may be organized as a profit or a non-profit corporation and must have a minimum of 25 individual, corporate or organization stockholders or mem-

bers. Successful LDC projects include land acquisition, construction or expansion of facilities, the purchase of machinery and equipment, development of shopping centers and the funding of facilities for minority business.

Using as little as ten percent equity, LDCs may obtain up to \$350,000 in SBA long-term facility loans for each small business assisted, and SBA will participate with banks, insurance companies, State authorities or commissions. SBA may also guarantee loans made by financial institutions to LDCs, based upon the specific use of the funds by the LDC.

LDCs are often in need of additional capital. Investors unable to form their own LDC may find that an investment in an already operating LDC will serve their purpose and enable the LDC to expand its operations.

The benefits accruing from participation in LDCs are similar to those listed under MESBICs.

14. Other Forms of Assistance

The techniques for the transfer of know-how from the majority to the minority business community are limited only by the creativity of the partners in the effort.

Types of assistance can range from minority suppliers' fairs, to the development of minority business directories; from special purchasing agreements with majority business firms to specially de-

signed managerial training and internship programs.

In other cases, entire marketing departments have been made available to the minority businessman, helping him to develop a comprehensive marketing plan, an advertising campaign, and contacts for the sale and distribution of his products or services.

Additional information and assistance is available on each of the above and can be obtained by circling the appropriate number on the attached card, filling in your name, return address and phone number, and dropping it into the nearest mailbox.



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